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SUBJECT: CODEL PELOSI HEARS FROM INDIAN INDUSTRIALISTS THAT MARKET FORCES ARE DRIVING BUSINESS INTO CLEAN TECH

MUMBAI 00000113 001.2 OF 004

¶1. (U) Summary: In an open and wide-ranging discussion, India's leading businessmen told Speaker Pelosi and her delegation that they prefer market incentives rather than tax policy to promote environmentally-friendly technology. They also stressed that, given high energy prices, large Indian companies were already shifting to energy-efficient technologies to save money, but smaller companies were in the need of assistance. Furthermore, Speaker Pelosi and the panel agreed that India, given its rapid rate of growth and lack of legacy issues, was in a stronger position than developed countries to adopt green solutions. The panel and the delegation also concluded that given the U.S. strength in creating innovative technology and India's strength in frugal engineering that the two were natural partners in making clean technology cost-effective. However, Indian panelists cautioned that voluntary rather than mandatory action was preferred in regards to the adoption of such technology. On the civil nuclear initiative, Indian industrialists thought that while the top layers of government are committed to it, in the near-term the survival of the federal government would take precedence. In a separate meeting, the CODEL also heard about the Essar Group's plans to develop renewable energy solutions and minimize its carbon emissions.

Incentives Rather than Carbon Tax Preferred by Indian Industry

¶2. (U) On March 24, Nancy Pelosi, the Speaker of the House, and nine other members of Congress engaged with senior Indian business leaders in Mumbai to discuss clean energy and energy efficiency. Speaker Pelosi initiated the discussion by stating that her delegation realizes that private sector participation was essential to stop global warming, and solicited the group's opinion on the levy of a carbon tax to check carbon dioxide emissions. Mukesh Ambani, the Chairman & Managing Director of Reliance Industries, said that an incentive system rather than a carbon tax should drive clean energy and energy efficiency. V. Raguraman, the Confederation of Indian Industries (CII) Principal Advisor on Energy, Water and the Environment, pointed out that energy prices in India are administered and not market-driven, and both industry and consumers pay heavily to

subsidize the agricultural sector and the poorer sections of society. A market-determined rational pricing system is essential for the energy chain before a carbon tax is necessary, he emphasized. Ambani pointed out that the quality of life and income levels of many Indians had drastically improved over the past two to three decades which had created a power shortage throughout India. He admitted that there was a great temptation to take the "easy" way out to solve this problem -- use the country's large coal reserves for thermal-based power plants, to use small cars with inefficient engines - but that he is confident that energy efficiency will become the way of life for Indians, provided the right incentives and the right market structure is in place. Jamshyd Godrej, the Chairman of Godrej & Boyce and the moderator of the round-table discussion, concurred with Ambani, suggesting that low carbon emissions should be encouraged through market incentives rather than disincentives. Ashok Ganguly of the Government of India's Investment Commission added that the high energy prices paid by industry were forcing it to become more energy-efficient while it incrementally used more energy.

13. (U) Anand Mahindra, the Vice-Chairman and Managing Director of Mahindra and Mahindra, claimed that the consumer's demand for clean technology has forced industry to innovate and deliver energy efficient solutions or lose market share to competitors. He cited the production of the Mahindra diesel hybrid SUV - which he hopes to launch in the U. S. by 2010 -- as an example of green technology driven by consumer demand. Green energy in India will be driven by the voluntary responsibility of the people and industry, he claimed. Joint partnerships -- and not taxes -- are the solution, he continued. Further explaining these points, Godrej mentioned that Indian industry is not opposed to India signing international agreements, as Indian industry knows how much it can already do to make itself environmentally friendly and make profits from these actions. On the contrary, Godrej explained that the Indian government will not do anything until it sees what other governments are willing to do.

MUMBAI 00000113 002.2 OF 004

14. (U) Rep James Sensenbrenner recognized that global policies on climate change have to be sensitive to political realities. He pointed out that policies had to be geared at winning elections, as most of the major countries in the world, excepting China, are democracies. He expressed agreement with Indian interlocutors that technology and market forces would solve the problem of global warming and climate change, and not carbon taxes and regulations. He added that he believed that the private sector would be the driving force to effect changes and that entrepreneurs would be motivated if money could be saved and made from the use of green technology. He emphasized that strong intellectual property protection was essential to encourage people to invest in innovation.

#### India in a Desirable Position to Make Green Energy Choices

15. (U) Ashok Ganguly, a member of the U.S.-India CEO forum and of the Prime Minister's Investment Commission, explained that energy consumption in India is highly skewed and most of the people have low to no energy consumption. Therefore, he contended that it is unfair to control or limit energy consumption in India. However, he believes that the low level of domestic energy consumption also gives India the ability to control, guide, and manage future uses of energy. V Raghuraman also expressed the belief that India can "leapfrog" to the most advanced technology, as the country has no legacy issues. India's entrepreneurial talent, he claims, can develop "elegant solutions to build a low carbon economy." Raghuraman who is also a director of Suzlon, the fifth largest wind turbine manufacturer, also lauded India's initiatives in wind energy. He noted that wind energy met the goals of the Tenth Five Year Plan (2002-07) of 6,000 MW in renewables in just three years time. Most of the additional generation capacity of renewables -- targeted at 14,000 MW in the Eleventh Five Year Plan (2007-12) -- will again come from wind energy. In contrast, he noted, India has an installed capacity of only 3 MW of solar power but there are expectations that this could increase to

2,000 MW by 2010. He affirmed that India needs to develop competitive and cost-efficient solar technologies, as most of India's villages do not have any electricity, so shifting to solar energy would be easy, he noted. Raghuraman, however, warned that while India could become a market leader in the manufacture of renewables and clean technology, these technologies could be diverted to countries where there better incentives for their use, instead of being deployed locally. Speaker Pelosi pointed out that developing countries may be better placed to implement clean energy solutions due to an absence of legacy issues, rather than developed countries like the U.S. Raguraman concurred that given India's current rate of GDP growth, by 2030 India's energy-inefficient legacy assets will constitute a miniscule portion of assets.

#### U.S.-India Natural Partners in R&D for Clean Technology

16. (U) Ganguly said that one of the points raised in the U.S.-India CEO forum discussions was that both countries had two inherent strengths: the U. S. as an innovator of new technology and India as a laboratory to test and try out this technology to bring about change. Mahindra pointed out that India's strength's in "frugal engineering" (achieving more with fewer resources) would aid this joint partnership. Ambani highlighted India's technological prowess by citing India's success in the telecom sector which was plagued with inefficiencies and poor quality in the 1990's. Now, he pointed out, calls cost less than 10 paisa (or cents) a minute. India is the "playground" for the world economy and there are tremendous opportunities for partnerships to demonstrate technological efficacy, he continued. Mahindra added that the U.S. gave the world the semiconductor, automobiles, the computer, and the Internet, and it should now take the lead in the innovations necessary to conquer the problem of climate change. Speaker Pelosi emphasized that education was the key to innovation and recognized that the Indian-American community in the U. S. was a critical driving force behind innovation.

17. (U) Rep. Jay Inslee said that a globalized, largely de-carbonized economy was essential to achieve an 80 percent reduction of carbon emissions by 2050. This, he admitted, is a

MUMBAI 00000113 003.2 OF 004

herculean effort and R&D investment has to be ramped up by several factors to achieve this. He suggested that two issues be raised in the upcoming Copenhagen Climate Conference. Sector-based emission reductions and the creation of a clean technology fund where developed and developing countries contribute a certain percent for the development of clean technology. Shashank Inamdar, the Managing Director of Praj Industries which is a major player in bio-fuels and ethanol-based technology, stated that the USG had allotted nearly USD 400 million for six research-projects for the commercialization of cellulose-based ethanol, and Praj was collaborator for some of the projects. Rep. Rush Holt said that India is central to the issue of whether the world can deal with global warming and climate change. He remarked that in other developing countries the R&D infrastructure is not in place, but in India it is. He suggested that India's R&D infrastructure should be scaled up, with a concurrent major increase in investments. There should be a major commitment for co-operation in R&D to provide the funds needed, he added. In doing so, the thought of a billion people consuming like Western consumers would become feasible from the stand-point of the environment.

#### Voluntary Rather than Mandatory Action Prescribed

18. (U) Rep. Anna Eshoo emphasized that efforts towards clean energy should be voluntary through "big-thinking" and "big-action." She stated that the U. S. does not want to "preach or penalize." She noted, however, that there is a sense of urgency and that the window of opportunity is limited and closing rapidly. Mahindra appreciated Eshoo's comments and recognized the leadership role of the U.S. He recommended that the move towards mandatory standards should be suggested by a neutral third country. He stated that the "bargaining table

approach" would not be feasible for countries like India and China and suggested that the U.S. instead take a "leap of faith" and not adopt a "quid pro quo" approach towards India. Ganguly also expressed confidence that Indian private industry and non-government bodies, cognizant of global warming and climate change, will work towards addressing these two challenges. Rep. Inslee assured that by 2009, the U.S. hoped to have an aggressive carbon reduction strategy with a cap and trade system in place. Markey added that the U.S. would then have some credibility in negotiation once the 2009 Bill is passed, but emphasized that a partnership with India would still be essential. A partnership between the U.S. and India on clean technology and energy efficiency is needed to save the world, he concluded.

19. (U) Speaker Pelosi and Rep. Edward Markey both wondered whether there could be sector-based agreements for mandatory standards to reduce emissions and whether this reduction surplus could be traded in a new international market. Godrej believed that mandatory standards work for sectors of the industry which view it as an efficiency and cost-reduction factor; he singled out the lighting and air conditioner industries in India who have used this approach. He pointed out that the need for efficiency drives industry and this in turn drives innovation. But he emphasized that large industry has access to the large pools of capital to make the necessary investments but the challenge was to bring the thousands of smaller companies on board. Praj's Inamdar explained that the "food versus fuel" debate compelled the company to explore the economic and commercial viability of bio-fuels as energy crops. He suggested that the concessions given to farmers and oil companies for corn-based ethanol should also be extended to the producers of the ethanol blending technology. These incentives are essential for long-term sustainability of the program for bio-fuels, he added. Prem Jain, the Chairman of the Indian Green Business Council, said that the main focus of the CII-Sohrabji Godrej Green Business Center was to promote green buildings, as 40 percent of energy is consumed by buildings. He noted that the partnership with the U.S. to make India's first platinum-rated green building was based on technology transfers and not on financial assistance. Green buildings can reduce energy consumption by 40 percent and water consumption by 30 percent, he continued.

110. (SBU) Drawing from an earlier meeting in her trip, Speaker

MUMBAI 00000113 004.2 OF 004

Pelosi said that the U.K. Prime Minister Gordon Brown had suggested revamping international financial institutions to have a window for clean technology. Godrej pointed out that several studies had shown that the more banks pursue green business standards, the lesser their market share, similar to the way that environmental and other conditions on World Bank and IMF loans reduced their attractiveness to developing countries, pushing them to borrow from other sources with few strings. He recommended that all private banks be required to make clean technology mandatory for project finance. Speaker Pelosi assured him that Wall Street was cleaning up its act.

Nuclear Energy: Will Remain a Small Part of India's Energy Portfolio

111. (U) In response to Rep. Jim McDermott query about CII's interests in getting the U. S. -India civil nuclear agreement passed, Raghuraman explained that CII meets regularly with the U.S. India Business Council (USIBC) to discuss how to drive the agreement forward, while also addressing political sensibilities. Ganguly said that the top layers of government are committed to the deal. However, he believes that it will not be the "end of the world" if the deal is not passed. Godrej pointed out that nuclear energy currently accounts for around 2-3 percent of India's total energy generation and will likely only grow to 5-6 percent. While nuclear power is essential for the long-term and for a low-carbon economy, it is "not worth the government falling over this issue", he continued.

Essar Group Discusses Its Clean Energy Plans

¶12. (U) After the roundtable discussion, CODEL Pelosi met with senior executives of the Essar Group, a major diversified company with investments in steel, shipping, telecommunications, and energy, including a recent foray into wind energy. V. Krishnan the Head of Corporate Relations for Essar, discussed the company's plans to improve its refinery operations and to build 100-200 MW wind power generation plants in Tamil Nadu and Gujarat as well as a proposed project to create a 50MW solar energy facility in Rajasthan. When questioned about the use of coal in their steel plants, Joshi emphasized that the company used natural gas and electricity instead of coal for its steel plants. The company was planning to examine the combined carbon dioxide emitted from its business activities and look at ways to minimize these emissions. It also planned a venture into the production of bio-diesel.

¶13. (U) In terms of expansion and funding of consumer technology, two years ago the Essar Group founded the Essar Excellence Center, which employs over 1000 scientists and engineers in the metal, hydrocarbon, and energy sectors whose sole focus is to look at new technology and projects such as carbon credits. However, Sanjay Mehta, Essar Managing Director, told the Speaker that Essar does not have enough resources to do serious research in renewable energy at the moment, and relies largely on licensing these and other technologies from largely American companies. He added that it is not always easy to license key technologies, as some are proprietary products designed by industry competitors.

¶14. (U) Comment: Members of CODEL Pelosi considered this roundtable to be one of the best interactions that they had in India. While they were disappointed by the lackluster commitment to clean energy from the Government of India, the strong dedication by industry to develop alternative energy sources and clean technology impressed them. In contrast to government concerns, the business leaders appeared open to adapting their businesses to incorporate clean technology.

¶15. (U) The Delegation was not able to clear on this cable.  
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